

**ROCKTON POLICE DEPARTMENT
PENSION FUND
INVESTMENT POLICY**

PURPOSE

The investment of pension funds is the responsibility of the members of the Board of Trustees of the Rockton Police Pension Fund (Pension Board). The purpose of this investment policy is to indicate a conscious, formal effort by the Pension Board to develop, implement and monitor the investment of pension funds. It shall be considered an important means to communicate the Pension Board's policy views on management of pension funds to the public, participants, and beneficiaries of the Fund.

SCOPE

This policy governs the investment practices and applies to all financial transactions of the Rockton Police Pension Fund (Fund).

OBJECTIVES

The Pension Board has a fiduciary responsibility to discharge their duties with respect to the pension fund solely in the interest of the participants and beneficiaries as set forth in the Illinois Pension Code at 40 ILCS 5/1-109.

Safety - Safety of principal is the foremost objective of the Rockton Police Pension Fund. Each investment transaction shall seek to first ensure that large capital losses are avoided whether they be from securities defaults or erosion of market value.

Return on Investments -The Pension Board seeks to attain or exceed market rates of return on its investments consistent with constraints imposed by its safety objectives, cash flow considerations and Illinois Laws that restrict the placement of public funds.

Maintenance of Public Trust -All participants in the investment process shall seek to act responsibly as custodians of pension funds. Investment officials shall avoid any transactions that might reasonably impair Fund participant's confidence in the Pension Board's ability to manage the Fund.

Liquidity – The assets shall be sufficiently liquid to meet the Fund's disbursement requirements for the payment of operating expenses and benefits.

RESPONSIBILITY

Management of the investment program is the responsibility of the Rockton Police Pension Fund Board of Trustees. No person may engage in an investment transaction except as provided under terms of this policy established by the Pension Board.

The Pension Board may appoint an investment manager (as defined in 40 ILCS 5/1 - 101.4) to assist in the management of the investment program. The investment manager shall acknowledge, in writing, that they are a fiduciary with respect to the Rockton Police Pension Fund and are subject to ILCS 5/1-113.5 (are bound to disclose all direct and indirect fees. Any such written agreement shall be attached to this policy.

The Pension Board will meet with the investment manager quarterly to review market conditions and to determine investment strategy. The Treasurer of the Rockton Police is responsible for ensuring that all investment transactions undertaken are consistent with the Fund's investment strategy.

PROHIBITED TRANSACTIONS

A Fiduciary with respect to the Fund shall not:

1. Deal with the assets of the Fund in their own interest or for their own account.
2. In their individual or other capacity act in any transaction involving the Fund on behalf of a party whose interests are adverse to the interest of the Fund or the interests of its participants or beneficiaries.
3. Receive any consideration for their own personal account from any party dealing with the Fund in connection with a transaction involving the assets of the fund.

INVESTMENT INSTRUMENTS

The Fund may invest in any type of investment instrument permitted by Illinois law, as described in Chapter 40 of the Illinois Compiled Statutes, 40ILCS 5/1-113.1 through 113.40. Permitted investments instruments include, but are not limited to:

1. Interest bearing direct obligations of the United States of America.
2. Interest bearing obligations to the extent that they are fully guaranteed or insured as to payment of principal and interest by the United States of America.
3. Interest bearing bonds, noted, debentures, or other similar obligations of agencies of the United States of America. For the purpose of this section, "Agencies of the United States of American" include:
 - a. The Federal National Mortgage Association and the Student Loan Marketing Association
 - b. Federal Land Banks, Federal Intermediate Credit Banks, Federal Farm Credit Banks, and any other entity authorized to issue direct debt obligations of the United States of America under the Farm Credit act of 1971
 - c. Federal Home Loan Banks and Federal Home Loan Mortgage Corporation

- d. Any agency created by act of Congress that is authorized to issue direct debt obligations of the United States of America.
4. Interest bearing savings accounts or certificates of deposit, issued by federally chartered banks or savings and loans associations, or by State of Illinois chartered banks or savings and loans associations, to the extent that the deposits are insured by agencies or instrumentalities of the federal government.
5. Interest bearing bonds of the State of Illinois.
6. Pooled interest bearing accounts managed by the Illinois Public Treasurer's Investment Pool in accordance with the deposits of state moneys act. Interest bearing bonds or tax anticipation warrants of any county, township, or municipal corporation of the State of Illinois.
7. Direct obligations of the State of Israel.
8. Money Market Mutual Funds managed by investment companies that are registered under the Federal Investment Company Act of 1940 and the Illinois Securities Law of 1953 and are diversified, open-ended management investment companies; provided that the portfolio of the money market mutual fund is limited to:
 - a. Bonds, notes, certificates of indebtedness, treasury bills, or other securities that are guaranteed by the full faith and credit of the United States of American as to principal and interest.
 - b. Bonds, notes, debentures, or other similar obligations of the United States of America or its agencies.
9. Separate accounts that are managed by life insurance companies authorized to transact business in Illinois.
10. Mutual funds that meet the following requirements:
 - a. The mutual fund is managed by an investment company as defined and registered under the Federal Investment Company Act of 1940 and registered under the Illinois Securities Law of 1953.
 - b. The mutual fund has been in operation for at least five years.
 - c. The mutual fund has total net assets of \$250 million or more.
 - d. The mutual fund is comprised of diversified portfolios of common or preferred stocks, bonds, or money market instruments.
11. For pension funds with net assets of \$5,000,000 or more, common and preferred stocks that meet the following requirement:
 - a. Investments made through an investment advisor with a written contract.
 - b. Stocks of U. S. Corporations that have been in existence for 5 years.

- c. Corporations not in arrears in payment of dividends in the last 5 years.
- d. Market value of stock in any one corporation does not exceed 5% of cash and invested assets of pension fund.
- e. Stock in any one corporation does not exceed 5% of the total outstanding stock in the corporation.
- f. Stocks listed on national securities exchange or quoted in NASDAQNMS.

The Fund's investment in equity investments shall not exceed 10% (for funds of less than \$2,500,000) or 35% (for funds of \$2,500,000 or more) of the market value of the pension fund's net present assets stated in its most recent annual report on file with the Illinois Department of Insurance.

The Board of Trustees may register the investments of the Fund in the name of the Pension Fund, in the nominee name of a bank or trust company authorized to conduct trust business in Illinois, or in the nominee name of the Illinois Public Treasurer's Investment Pool.

CONTROLS

The Fund maintains its books and records in conformance with generally accepted accounting principles. The internal controls shall be reviewed by the Pension Board and an independent auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employee and officers of the Pension Board.

DIVERSIFICATION/STRATEGY

Fixed Income:

The average maturity/duration of the portfolio will be managed based upon the current existing interest rate environment. Under most circumstances the maturity/modified duration of the portfolio will be maintained at approximately 5.0 years and will range from 1.0 years to 10.0 years. This type of strategy will result in increasing the maturity/duration of the portfolio when interest rates are rising and decreasing the maturity/duration of the portfolio if interest rates are declining. The investment manager may change the duration of the portfolio as the market conditions permit.

Equities:

Once the fund reaches the equity allocation approved by the Board and permitted by law, normal asset allocation range for equity portfolio allocation weightings should be:

	<u>Normal Allocation</u>		<u>Range of Allocation</u>
U.S. Large Company Stocks	60%	+/-	40%
U.S. Small Company Stocks	20%	+/-	20%
Foreign Stocks	20%	+/-	20%

Portfolio allocations should be rebalanced at least annually.

COLLATERALIZATION - It is policy of the Fund to require that all deposits in excess of FDIC insurable limits (applies to bank Certificates of Deposit) be secured by collateral in order to protect deposits from default.

1. Eligible collateral instruments and collateral ratios (market value divided by deposit) are as follows:

- a. U. S. Government Securities = 110%
- b. Obligations of Federal Agencies = 115%
- c. Obligations of the State of Illinois = 115%
- d. Local and Municipal Bonds rated "A" or better by Moody's = 115%

The ratio of fair market value of collateral to the amount of funds secured shall be reviewed at least quarterly and additional collateral shall be requested when the ratio declines below the level required.

2. Safekeeping of collateral:

- a. Third party safekeeping is required for all collateral. To accomplish this, the securities can be held at the following locations:
 - 1. At Federal Reserve Bank or branch office.
 - 2. At another custodial facility -generally in a trust department through book-entry at the Federal Reserve, unless physical securities are involved. If physical securities are involved, at a third party depository in a suitable vault and insured against loss by fire, theft and similar causes.
- b. Safekeeping of collateral shall be documented by a written agreement approved by the Treasurer. This may be in the form of a safekeeping agreement trust agreement, escrow agreement, or custody agreement.
- c. Substitution or exchange of securities held in safekeeping as collateral may occur without prior written notice to the Treasurer provided that the market value of the replacement securities are equal to or greater than the market value of the securities being replaced. The Treasurer shall be notified in writing within two days of all substitutions.

CUSTODY AND SAFEKEEPING OF INVESTMENTS

1. Third party safekeeping is required for all securities owned by the Fund. To accomplish this, the securities shall be held in a trust department through book-entry at the Depository Trust Company.
2. Safekeeping shall be documented by an approved written agreement. The agreement may be in the form of a safekeeping agreement, trust agreement, escrow agreement, or custody agreement. Fees for this service shall be mutually agreed upon by the Pension Board and the safekeeping bank.

ETHICS AND CONFLICTS OF INTEREST

Any fiduciary with respect to the Fund shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

INDEMNIFICATION

Pension Board members, investment officers, and the Treasurer acting in accordance with this Investment Policy and such written procedures as have been or may be established, in relation thereto, and exercising due diligence, shall be relieved of personal liability for an individual security's credit risk or market changes.

REPORTING

On an annual basis, the Treasurer shall submit to the Pension Board an investment report, which shall describe the portfolio in terms of investment securities, maturity, cost, transactions, and earnings for the current period. The Treasurer shall also submit a comprehensive annual report on the investment program and activity.

MEETING SCHEDULE

The Board shall schedule quarterly meetings at the start of each year. Special meetings may be called from time-to-time by the Board.

AUDIT

The Fund is subject to periodic examination by the Illinois Department of Insurance.

DEFINITIONS

Beneficiary - person eligible for or receiving benefits from a pension fund.

Book-Entry Security - securities that can be transferred from institution to institution using the federal electronic wire system, thus eliminating the physical transfer of certificates. Records are maintained on a computer system at the Federal Reserve.

Collateral - the pledging of a security to guarantee performance of an obligation.

Commercial Paper - unsecured promissory notes of corporations issued for 270 days or less.

Fiduciary - person entrusted with the control of assets for the benefit of others.

Investment Manager - an individual or organization that provides investment management services for a fee, either on a discretionary or nondiscretionary basis. Under Illinois law, an investment manager is considered a fiduciary with respect to the Fund.

IPTIP (Illinois Public Treasurer's Investment Pool) - a short-term money market fund for public funds in Illinois

Market Value - the present price of a given security

Return - the profit or interest as payment for investment.

Security - any note, stock, bond, certificate of interest or certificate of deposit.

Separate Account - term used for variable annuities. Because the risk is borne by the investor in a variable annuity, the issuer may not commingle funds invested in the variable annuity with the general funds of the issuer.

Treasury Bill - short-term debt obligation of U. S. government, which will mature within ten years at the time of original issuance.

Treasury Bond - longer debt obligations of U. S. government, which will mature in ten years or longer at the time of original issuance.

Yield - percentage measured by taking annual interest from an investment and dividing by current market value.

AMENDMENT

All investment policies and investment management guidelines will be reviewed by the Pension Board annually, or whenever circumstances change to the extent that the policies are ineffective or inappropriate.

CONFLICT

In the event of any conflict between this Policy and Illinois Compiled Statutes or case decisions of the State of Illinois, the Statutes and case law decisions shall govern.

ADOPTION

Adopted by the Rockton Police Pension Fund Board of Trustees, as amended, on this 22nd day of June, 2011.

President

Secretary

Treasurer

Trustee

Trustee